

DIRECT TESTIMONY

of

LESLIE PUGH

Accounting Department  
Financial Analysis Division  
Illinois Commerce Commission

Approval of an Increase and Adjustment of  
Rates and Charges for Water Utility Service

Cherry Hill Water Company

Docket No. 03-0401

August 28, 2003

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## SCHEDULES

- Schedule 2.1 - Adjustment to Cash Working Capital
- Schedule 2.2 - Adjustment to Deferred Charges – Tank Maintenance

1 Witness Identification

2 **Q. Please state your name and business address.**

3 A. My name is Leslie Pugh. My business address is 527 East Capitol Avenue,  
4 Springfield, Illinois 62701.

5 **Q. By whom are you employed and in what capacity?**

6 A. I am an Accountant in the Accounting Department of the Financial Analysis  
7 Division of the Illinois Commerce Commission ("ICC" or "Commission").

8 **Q. Please describe your professional background and affiliations.**

9 A. I earned a Bachelor of Arts degree in Accounting from the University of Illinois at  
10 Springfield. I am a Certified Public Accountant, licensed to practice in the State  
11 of Illinois. Prior to joining the Staff of the Illinois Commerce Commission ("Staff"),  
12 I was engaged in the practice of public accounting.

13 **Q. Have you previously testified before this Commission?**

14 A. Yes, I have.

15 Purpose of Testimony

16 **Q. What is the purpose of your testimony in this proceeding?**

17 A. The purpose of my testimony is to propose adjustments to Apple Canyon Water  
18 Company's ("Company") rate base and operating statement concerning cash  
19 working capital and deferred charges. I also recommend that the Commission

20 make a determination regarding the original cost of the Company's plant-in-  
21 service balance at December 31, 2002.

22 **Q. Are you sponsoring any schedules as part of ICC Staff Exhibit 2.0?**

23 A. Yes. I prepared the following schedules, which show data as of, or for the test  
24 year ending December 31, 2002:

25 Adjustment Schedules

26 Schedule 2.1 - Adjustment to Cash Working Capital

27 Schedule 2.2 - Adjustment to Deferred Charges – Tank Maintenance

28 Adjustment to Cash Working Capital

29 **Q. Please explain ICC Staff Exhibit 2.0, Schedule 2.1, Adjustment to Cash**  
30 **Working Capital.**

31 A. ICC Staff Exhibit 2.0, Schedule 2.1, Adjustment to Cash Working Capital  
32 presents my proposed adjustment to cash working capital for the removal of real  
33 estate taxes and to incorporate the effects of other Staff-proposed adjustments.  
34 The Company calculated its cash working capital requirements using the 1/8<sup>th</sup>  
35 method based on the operating expenses presented in its filing. Staff has no  
36 objection to the use of this method. However, Staff has removed real estate  
37 taxes in those instances where payment was deferred for more than a year. In  
38 addition, Staff has proposed adjustments to operating expense components of  
39 the cash working capital proposed by the Company. Therefore, cash working  
40 capital has changed accordingly as shown on Schedule 2.1 to reflect Staff's

41 proposed adjustments to expenses. This adjustment should be updated to  
42 reflect the operating expenses approved by the Commission.

43 Adjustment to Deferred Charges – Tank Maintenance

44 **Q. Please describe ICC Staff Exhibit 2.0, Schedule 2.2, Adjustment to Deferred**  
45 **Charges – Tank Maintenance.**

46 A. ICC Staff Exhibit 2.0, Schedule 2.2, Adjustment to Deferred Charges – Tank  
47 Maintenance presents my proposed adjustment to include deferred tank  
48 maintenance charges. The costs incurred for the tank maintenance are deferred  
49 and amortized over the expected life of the improvement of the asset. The  
50 Company is entitled to recover the cost of the betterment which is shown net of  
51 amortization in the adjustment. This adjustment is consistent with Commission  
52 practices and I recommend the inclusion of the deferred charges in the rate base  
53 calculation.

54 Original Cost Determination

55 **Q. What do you propose regarding an original cost determination?**

56 A. I recommend that the Commission include the following provision in this  
57 proceeding's order:

58 **It is further ordered that the original cost of plant at December 31,**  
59 **2002, as reflected on Cherry Hill Water Company, Schedule C,**  
60 **column Per Books, is unconditionally approved as the original cost**  
61 **of plant for consideration of 83 Ill. Adm. Code 615.**

62 Requirements for preservation of records are associated with an original cost  
63 determination. 83 Ill. Adm. Code 615, The Preservation of Records of Water

64 Utilities, Appendix A, contains requirements for the preservation of specific  
65 records. For example, journal vouchers and journal entries which support plant  
66 accounts are to be maintained "7 years prior to date as of which original cost of  
67 plant has been unconditionally determined or approved by this Commission in"  
68 an original cost determination proceeding or a rate case. Therefore, I recommend  
69 the Commission make the suggested finding regarding the original cost of the  
70 Company's plant as of December 31, 2002.

71 Conclusion

72 **Q. Does this conclude your prepared direct testimony?**

73 **A. Yes.**

Docket No. 03-0401  
ICC Staff Exhibit 2.0  
Schedule 2.1

**Cherry Hill Water Company**  
**Adjustment to Cash Working Capital**  
For the Test Year Ending December 31, 2002

Line No.	Description	Amount	Source
	(a)	(b)	(c)
1	Maintenance Expenses	\$ 43,510	ICC Staff Exhibit 1.0, Schedule 1.1, col (d), line 5
2	General Expense	15,774	ICC Staff Exhibit 1.0, Schedule 1.1, col (d), line 6
3	Taxes Other Than Income	10,884	ICC Staff Exhibit 1.0, Schedule 1.1, col (d), line 9
4	Less Property Taxes	(7,931)	Company response to Staff data request DLH-1.02, W/P [f]
5	Operating Expenses Subject to Working Capital Allowance	\$ 62,237	Sum of lines 1, 2, 3, and 4
6	Divisor (1/8)	0.125	45 days / 360 days
7	Working Capital Allowance Per Staff	7,780	Line 5 times line 6
8	Working Capital Allowance Per Company	9,225	Company Schedule C, Column As Adjusted
9	Adjustment	\$ (1,445)	Line 7 less line 8

**Cherry Hill Water Company**  
**Adjustment to Deferred Charges - Tank Maintenance**  
 For the Test Year Ending December 31, 2002

Line No.	Description	Amount	Source
	(a)	(b)	(c)
1	Deferred Charges - Tank Maintenance Costs	\$ 44,155	Company response to Staff data request LAP-1.08
2	Less amortization	(37,226)	Company response to Staff data request LAP-1.08
3	Deferred Charges - Tank Maintenance Costs per Staff	6,929	Line 1 less line 2
4	Deferred Charges - Tank Maintenance Costs per Company	-	
5	Adjustment	\$ 6,929	Line 3 less line 4